



Missouri Division of Finance

UPDATE

A Report of Missouri State Chartered Financial Institutions

Issue 99-2

July 1999

From . . . Acting Commissioner D. Eric McClure

Banking in Missouri is alive and well. Our banks continue to enjoy good earnings while maintaining strong capital bases. A primary challenge for us all is to make good, safe and sound decisions in good times as well as bad. I hope that all of our banks will strive to establish a culture of excellence and to not relax lending standards in these good, but very competitive times. An additional challenge in the next six months is for all of the banks to be very proactive and aggressive in getting out their Y2K outreach messages. Good luck in this endeavor and let us know when we may be of assistance.

We are in the process of preparing the annual bank assessments and are very proud to announce that we are lowering our assessment rates for the second consecutive year. These lower rates are the result of several factors including greater efficiencies in the examination process and procedures.

There have been many changes at the Division of Finance during the past six months. We lost two of our long-time leaders to retirement. Earl Manning who worked for the Division for 37 years, serving as Commissioner for the past 10, retired on March 31. His contribution to the Division, and Missouri banking in general, was huge through his strong leadership and unwavering commitment to safety and soundness. Irv Friedhoff retired on May 31 after serving the Division as General Counsel for over 25 years. Irv served both the Division and the Missouri banks well during these years and he will be missed. Our hats are off to these gentlemen and we wish them both many happy years of retirement.

Greg Omer started as our new General Counsel on June 14 and we are happy to welcome him to our staff.

We also made changes early in the year to our field office district boundaries and shifted some key personnel around at that level. We consolidated our field offices from eight down to five. You are welcome to visit our web site for the current map of the five districts.

GENERAL USURY

Section 408.030 provides that the Director of Finance shall declare the quarterly market rate of interest each quarter, post it in accordance with Section 361.110 and publish it in appropriate publications. Said quarterly market rate for the period July 1, 1999 through September 30, 1999 shall be 8.8%; as an alternative, 10% may be used.

In This Issue:

- New IT Examination Rating System
- Changes in the Examination Process Benefit State Banks
- ATMs Being Barred From Service Station Islands

STATE BANKING BOARD APPOINTMENT

On May 6, 1999, the Missouri Senate unanimously consented to the appointment of Frank E. Wiles to the State Banking Board. Mr. Wiles is chairman of Community Bank of the Ozarks with locations in Sunrise Beach and Pleasant Hope. He is also a director of the Midwest Independent Bank in Jefferson City and of the Missouri Independent Bankers' Association.

The Missouri State Banking Board was created in 1955 for the purposes of hearing appeals of certain decisions of the Commissioner of Finance and giving its advice and approval concerning regulations relating to banking. The Board is, in accordance with the law, bipartisan and consists of two nonbankers, a lawyer and two bankers.

NEW INFORMATION TECHNOLOGY EXAMINATION RATING SYSTEM

The Division of Finance has implemented the revised Uniform Rating System for Information Technology recently adopted by the Federal Financial Institutions Examination Council. The rating system will be used in all bank information technology examinations.

Acting Commissioner McClure endorses the updated rating system, particularly the steps to bring the system more in line with the rating definitions used in the CAMELS ratings and the emphasis on risk management. This is a revision of the rating system that was originally adopted in 1978.

A brief summary of the changes:

- ◆ Modifies the information technology rating systems to conform to the language and tone of the Uniform Financial Institution Rating System, commonly referred to as the CAMELS rating.
- ◆ Reformats and clarifies the descriptions of component ratings.
- ◆ Places increased emphasis on risk-management processes in each of the rating components.
- ◆ Includes the addition of two new component categories, Development and Acquisition, and Support and Delivery, in place of Systems Development and Programming, and Operations.
- ◆ Explicitly identifies the type of risks considered in the assignment of individual component ratings.

Examiners, bank management and information systems employees will take a little time to become accustomed to the new rating system, but we believe the changes are positive. Division of Finance examiners will continue the longstanding practice of disclosing preliminary ratings to managing officers and boards of directors at the close of each information technology examination. And, as usual, the final ratings will continue to be included with the examination report addressed to the board of directors.

CHANGES IN THE EXAMINATION PROCESS BENEFIT STATE BANKS

The primary contact most bankers have with the Division of Finance is during the examination process. The Division has been revising practices in order to sharpen examiner focus on identifying risk, to add value to the bank by offering objective recommendations, to take full advantage of emerging technology, and to streamline examinations. Additional steps were taken in 1998 to achieve our commitment in reducing unnecessary burden while maintaining high quality examination objectives.

GOAL: High Quality Examinations

RESULTS:

- *Enhanced pre-examination review and planning methods were developed to better tailor examiner resources on the unique risk areas of each bank.*
- *The new GENESYS computerized examination report system was implemented. GENESYS software integrates data from Uniform Bank Performance Reports, Call Report data, and prior examination data into one program to help create the report of examination.*
- *Each bank is requested to provide computerized loan data in an ALERT file that allows elimination of time-consuming manual tasks and provides versatility in analyzing the information.*
- *Updated Trust and Information Technology rating systems were adopted, along with revised guidelines on classifying retail credit.*
- *Division examiners reported on Y2K readiness and participated with Federal examiners on Y2K assessments.*

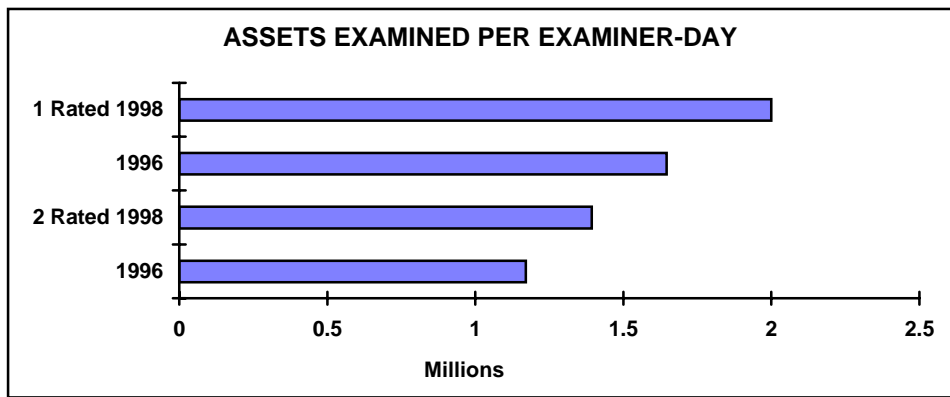
GOAL: Minimize Examination Burden on 1-rated Banks

RESULTS: *There is a 1-rated dividend! On average, 37% more assets are examined per day in a 1-rated bank than a 2-rated bank. This equates to shorter examinations.*

GOAL: Examination Efficiency

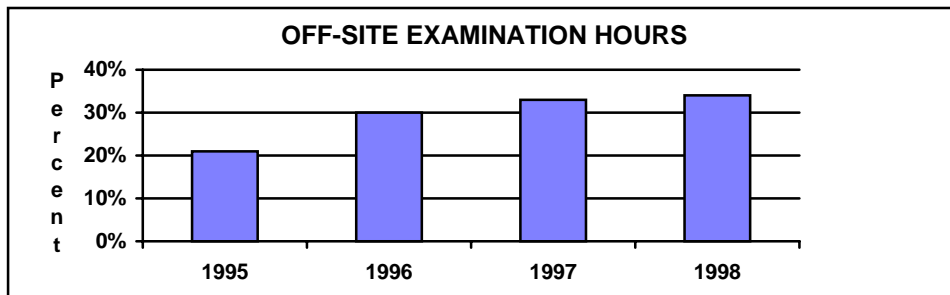
RESULTS:

- *The Division received the 1998 Governor's Award for Quality and Productivity for our new program to reduce indirect examination costs. The program concentrates on reducing the time bankers spend responding to examiner needs, particularly information requests and meetings.*
- *We compare 1998 examination efficiency measures with our performance on the prior State examination. The measure is the ratio of Assets Examined Per Examiner-Day. In 1-rated banks, the measure improved 22% over the prior examination. In 2-rated banks, the measure improved 19%.*



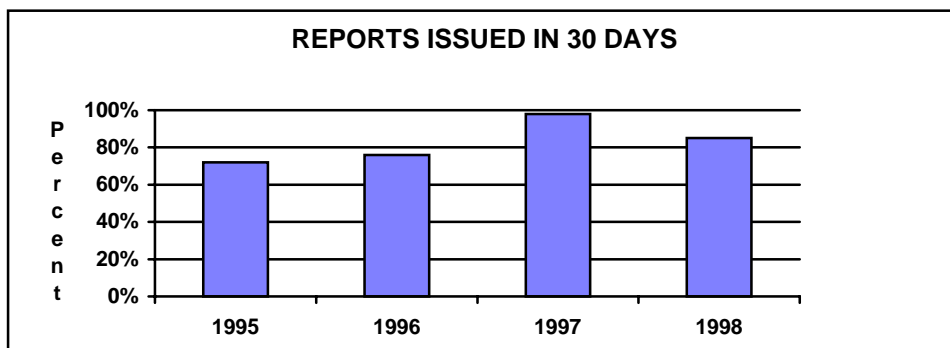
GOAL: Minimize On-site Examination Hours

RESULTS: During the average examination, 34% of the examiner's time is spent off-site. Examiners are completing as much of their review as possible in our offices to reduce intrusion on normal bank activity.



GOAL: Promptly Issue Examination Reports

RESULTS: For the quarter ending 12/98, 85% of routine examinations were mailed to the bank's Board of Directors within 30 days of examiners completing the on-site portion of the examination. Timely receipt of the final report allows directors to review fresh information and relevant recommendations.



ATMs BEING BARRED FROM SERVICE STATION ISLANDS

The Missouri Department of Agriculture has issued a proposed rule that will bar the installation of ATMs on islands used for dispensing of petroleum products at service stations and similar establishments. The basis for the restriction is that ATMs are likely to produce safety hazards by distracting the customer from the fuel dispensing operation, limiting ingress and egress to the dispensing area or limiting visibility of vehicle refueling at the islands.

The comment period for the rule recently expired, and it should be effective within a few months. The Department intends to allow a grace period to remove ATMs previously established on service station islands unless there is distinct hazard to life or property. Any future installment of an ATM at an establishment used for fueling must comply with the rule and must not present any other dangers to public safety.

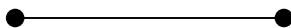
The regulation will be promulgated at 2 CSR 90-30.050, with authority under Section 414.052 RSMo.

REPORT OF EXAMINATION DATES

The report of examination lists several dates of reference, which are important for regulatory analysis, but can be confusing for the uninitiated. The following is brief explanation:

- **Examination Commenced or Start Date** - is the date examiners arrive to begin the on-site portion of the review.
- **Examination As Of Date** - is the date of the bank's financial statements used throughout the report, generally the most recent quarter-end.
- **Asset Review Date** - This is the date of the loan review information. Examiners request computerized files of current loan data such as balances, payment status, terms, etc.

Just a Reminder - - We occasionally get calls concerning directors' qualifying shares. Note that, effective January 1, 1999, the directors' qualifying shares requirement was eliminated from Missouri law. Therefore, a person need not be a stockholder in the bank or its holding company to be a director.



In Case You Didn't Know - - For several years now, section 408.140 has permitted what is termed a "Missouri loan fee" or prepaid finance charge on closed end consumer loans with terms of at least 30 days. The loan fee is now the lesser of 5% of the amount advanced or \$50.

LOST "OFFICIAL" CHECKS

The problems associated with lost or stolen official checks (cashier's, teller's, treasurer's) have been substantially reduced by a 1998 enactment of the Missouri General Assembly. The resulting new section 400.3-312 sets a procedure for, in effect, stopping payment after the lapsing of 90 days and a certification of loss or theft. Refer to the new section for details.



Visit the Department of Economic Development website at::

www.ecodev.state.mo.us/